

## B. Program Ends

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**Policy Type:** TFFR Ends

**Policy Title:** Mission

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The mission of TFFR, a trust fund, is to advocate for, develop, and administer a comprehensive retirement program for all trust fund members within the resources available.

**TFFR Board Adopted:** May 25, 1995.

**Investment and Funding Goals:**

1. Prudently invest assets in a well diversified portfolio to optimize long term returns while controlling risk to the fund.
2. Accumulate sufficient funds to pay all current and future benefit and expense obligations when due.
3. Improve and maintain adequate funding of all promised benefits to ensure the financial integrity of the system.
4. Build a funding cushion to provide for future benefit improvements.

**Benefit Goals:**

1. Provide 2.0% benefit formula for all current and future retirees.
2. Provide ad hoc retiree benefit adjustments (fixed formula and percent based) for all current and future retirees to maintain purchasing power of retirement benefits and assist with rising health care costs. Benefit adjustments may be considered when Board believes it is prudent based upon actuarial funding measurements including:
  - a. Positive contribution margin
  - b. Amortization of UAAL within GASB 30-year funding period
  - c. Funded ratio of 90% or greater.

**Service Goals:**

1. Administer accurate, prompt, and efficient pension benefits program.
2. Deliver high quality, friendly service to members and employers
3. Provide educational outreach programs including pre-retirement seminars and individual benefits counseling sessions.

**TFFR Board Adopted:** May 25, 1995.

**Amended:** August 29, 1996; March 6, 1998; September 23, 1999; January 25, 2001, September 21, 2006.

TFFR beneficiaries are:

**1. Plan Members:**

a. Active – all persons who are licensed to teach in North Dakota and who are contractually employed in teaching, supervisory, administrative, or extracurricular services:

- Classroom teachers
- Superintendents, assistant superintendents, county superintendents
- Business managers
- Principals and assistant principals
- Special teachers
- Superintendent of Public Instruction, non-teaching employees of Dept. of Public Instruction and Dept. of Career and Technical Education, unless transferred to North Dakota Public Employees Retirement System (NDPERS)
- Professional or teaching staff of Center for Distance Education, Youth Correctional Center, School for the Blind and School for the Deaf.
- Other persons or positions authorized in state statutes

b. Annuitants – All persons who are collecting a monthly benefit:

- Retirees
- Disabilitants
- Survivors/Beneficiaries

c. Inactive members:

- Vested
- Nonvested

**2. Employers:**

- a. School districts
- b. State institutions and agencies defined in state statutes
- c. Other TFFR participating employers

**TFFR Board Adopted:** May 25, 1995.

**Amended:** July 27, 2000; July 24, 2003, September 20, 2007

**Policy Type:** TFFR Ends

**Policy Title:** Membership Data and Contributions

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Ensure the security and accuracy of the members' permanent records and the collection of member and employer contributions from every governmental body employing a teacher.

Accordingly, the administrative means will be to:

1. Retain member documents applicable to the retirement program.
2. Safeguard TFFR database files.
3. Protect the confidential information contained in member files.
4. Collect the member and employer contributions from the employers based on retirement salary earned by the member.
5. Monitor the employer reporting process including the timely filing of information, consistency of month-to-month data, and changes in the employer payment of member assessments.
6. Review the individual member data, salary, and service credit for accuracy.
7. Post and validate the data received from the employer to the individual accounts.
8. Mail annual statements to every member.
9. Summarize the teacher data reported and notify the employers of the year-to-date information.
10. Ensure that individuals employed as "teachers" in North Dakota school districts, political subdivisions, and state institutions are reported to TFFR in compliance with the North Dakota Century Code (NDCC).
11. Provide publications and reporting instructions to employers on TFFR.
12. Transfer member and employer contributions to the investment program in a timely manner.

**Policy Type:** TFFR Ends

**Policy Title:** Membership Data and Contributions

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**Monitoring** (Method, Responsibility, Frequency)

- Internal Report
  - a. Disclosure of compliance to the board from RIO's internal auditors. The Internal Audit (IA) program is designed to review the districts on a five-year cycle.
  - b. Compliance for individual accounts is monitored through internal audits of staff compliance with state laws, rules, board policy, and procedures.
- External Report
  - a. Disclosure of compliance to the board by RIO's external auditors as a part of the annual audit.
  - b. Disclosure of compliance to members through annual statements.

**TFFR Board Adopted:** May 25, 1995.

**Amended:** July 18, 2002, September 20, 2007.

**1. PLAN CHARACTERISTICS AND FUND CONSTRAINTS.**

The North Dakota Teachers' Fund for Retirement (TFFR) is a pension benefit plan that was established in 1913 to provide retirement income to all public school and certain state teachers and administrators in the state of North Dakota. The plan is administered by a seven member Board of Trustees comprised of five members appointed by the Governor of North Dakota and two elected officials, the State Treasurer and the State Superintendent of Public Instruction.

The pal is a multi-employer defined benefit public pension plan that provides retirement benefits, disability retirement benefits, and survivor benefits, as the case may be, in accordance with Chapter 15-39.1 of the North Dakota Century Code (NDCC). Monthly retirement benefits are based on the formula: Number of Years of service X 2.0% X Final Average Annual Salaries. Adjustments to the basic formula are made depending on the retirement option selected.

Funding is provided by monthly employee and employer contributions. Member contributions are 7.75% of payroll. Employer contributions are 7.75% of payroll until July 1, 2008, when employer contributions increase to 8.25% of payroll. Employer contributions will return to 7.75% when TFFR reaches 90% funded level. ON an annual basis, benefit payouts exceed contributions. The asset/liability study completed in June 2005 indicates that a 1% cash equivalents allocation is expected to provide sufficient liquidity for the next 10 years.

The TFFR Board has an actuarial valuation performed annually. The current actuarial assumed rate of return on assets is 8.0%. Key plan and financial statistics as of the most recent valuation are recorded in the Asset/Liability Model presented in June 2005 by Gabriel, Roeder, Smith and Company (GRS) and on file at the North Dakota Retirement and Investment office (RIO).

**2. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB).**

The TFFR Board is charge by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in the manner provided in NDCC 21-10-07, the prudent institutional investor rule. The fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that

an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The Fund must be invested exclusively for the benefit of the members and their beneficiaries in accordance with this invested policy.

Management responsibility for the investment program not assigned to the SIB in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, who must establish written policies for the operation of the investment program, consistent with this investment policy.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory not advisory.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing criteria, procedures, and making decisions with respect to hiring, keeping, and terminating money managers. SIB investment responsibility also includes selecting performance measurement services, consultants, report formats, and frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

### **3. INVESTMENT OBJECTIVES**

The investment objectives of the plan have been established by the TFFR Board upon consideration of the board's strategic objectives and a comprehensive review of current and projected financial requirements.

Objective #1: Prudently invest assets in a well diversified portfolio to optimize long term returns while controlling risk to the fund.



Objective #2: Accumulate sufficient funds to pay all current and future benefit and expense obligations when due.

Objective #3: Improve and maintain adequate funding of all promised benefits to ensure the financial integrity of the system.

Objective #4: Build a funding cushion to provide for future benefit improvements.

#### **4. STANDARDS OF INVESTMENT PERFORMANCE.**

The plan's investment objectives and characteristics give rise to an asset allocation that is considered to have greater than a 50% probability of achieving the results desired. For evaluation purposes, the following performance targets will apply:

- The Fund should produce a rate of return that at least matches that of the policy portfolio.
- The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.
- Over 10 year and longer time periods the Fund should match or exceed the expected 8.93% rate of return assumed in the asset/liability study. Expected risk for the period, measured by standard deviation, is 13.52%.

#### **5. POLICY AND GUIDELINES**

The asset allocation of the TFFR fund is established by the TFFR Board, with input from consultants and RIO staff. Asset allocation is based upon the asset/liability study completed by Gabriel, Roeder, Smith and Company in June 2005. That study provided an appraisal of current cash flow projections and estimates of the investment returns likely to be achieved by the various asset classes over the next 20 years.

In recognition of the plan's objectives, projected financial status, and capital market expectations, the following is the asset allocation for the Fund:

Domestic Equities – Large Cap	28%
Domestic Equities – Small Cap	10%
International Equities	18%
Emerging Markets Equities	5%
Alternative Investments	5%
Domestic Fixed Income	12%
High Yield Bonds	7%
International Fixed Income	5%
Cash Equivalents	1%
Real Estate	9%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy, but not less than annually.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers
- c. No transaction shall be made which threatens the tax exempt status of the Fund.
- d. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
- e. No unhedged short sales or speculative margin purchases shall be made.
- f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as *"The investment of commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

- g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- 1) The cost does not exceed the fair market value at the time of investment.
- 2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar task
- 3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- 4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board's policy favors investments which will have a positive impact on the economy of North Dakota.

## **6. INTERNAL CONTROLS**

A system of internal controls must be in place by the SIB to prevent losses of public funds arising from fraud or employee error. Such controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedure for security transactions and compliance with the investment policy.

## **7. EVALUATION AND REVIEW**

Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards. Emphasis will be placed on three and five year results. Evaluation should include an assessment of the continued feasibility of achieving the investment objectives and the appropriateness of the Investment Policy Statement for achieving those objectives.

Performance reports will be provided to the TFFR Board periodically, but not less than annually. Such reports will include asset returns and allocation data as well as information regarding all significant and/or material matters and changes pertaining to the investment of the Fund, including, but not limited to:

- Changes in asset class portfolio structures, tactical approaches and market values;
- All material legal or legislative proceedings affecting the SIB
- Compliance with this investment policy statement.

All major liability assumptions regarding number of participants, compensation, benefit levels, and actuarial assumptions will be subject to review by the TFFR Board at such frequency as that board deems appropriate. Any material changes will be reported to the SIB in writing.

**TFFR Board Adopted:** May 25, 1995.

**Amended:** November 30, 1995; August 21, 1997; July 15, 1999; July 27, 2000; September 18, 2003; July 14, 2005; September 21, 2006; September 20, 2007.

Provide direct services and public information to members of TFFR.

Accordingly, the administrative means will be to:

1. Enroll, update, maintain, and certify all member accounts.
2. Respond to member inquiries on the retirement program.
3. Provide statewide benefits counseling services to members through one-on-one sessions.
4. Make group presentations and distribute information at conferences and conventions throughout the state.
5. Coordinate and conduct preretirement and financial planning programs for members on a statewide basis.
6. Certify eligibility for TFFR benefits and purchase of service credit.
7. Calculate and process claims for refund, retirement, disability, survivor, and Qualified Domestic Relations Order (QDRO) benefits, as well as claims for purchasing credit.
8. Permit members to change designated beneficiaries in the event of life occurrences identified in the administrative rules.
9. Close retirement accounts of deceased teachers.
10. Develop and distribute information to the members on the retirement program and related topics through newsletters, annual reports, member handbooks, brochures, and retirement planning guides/workbooks.
11. Maintain a website for TFFR information to provide members with a greater variety of access methods.

**Monitoring** (Method, Responsibility, Frequency)

- Internal Report
  - Disclosure of compliance to the board through internal audits on compliance with laws, rules, and policies.
  - Periodic presentations by staff at board meetings.
- External Report
  - Receive annual reports from leadership of groups representing the plan's beneficiaries.
  - RIO's annual audit by independent auditor.
  - Written and oral communication with board members from teachers regarding payment and processing of benefit claims.

**TFFR Board Adopted:** May 25, 1995.

**Amended:** July 27, 2000; July 24, 2003; September 20, 2007.

Ensure the payment of claims to members of TFFR.

Accordingly, the administrative means will be to:

1. Pay retirement benefits based on a presumed final salary for members retiring upon completion of their teaching contract and whose final salary has not been reported to TFFR.
2. Allow teachers receiving an annuity from TFFR to have payroll deductions subtracted from their monthly benefit, including, but not limited to: health, life, and other insurance premiums payable to NDPERS, North Dakota Retired Teachers Association (NDRTA) dues, North Dakota Education Association (NDEA) Retired dues, and federal and North Dakota income tax withholdings.
3. Distribute payments for benefit claims (annuities, PLSOs, refunds, and rollovers) once per month. Distributions including payments made by Electronic Funds Transfer (EFT) will be mailed on the last working day of the previous month payable on the first working day of each month.
4. Distribute special payments for benefit claims in the event of unforeseen circumstances (i.e. death, QDRO, Court Order).
5. Send new account notices and account change notices to retired members.

**Monitoring** (Method, Responsibility, Frequency)

- Internal Report
  - Disclosure of compliance to the board through internal audits on compliance with laws, rules, and policies.
  - Periodic presentations by staff at board meetings.
- External Report
  - Disclosure of compliance to the board through annual audit by RIO auditors.

**TFFR Board Adopted:** May 25, 1995.

**Amended:** July 27, 2000; July 24, 2003.

**Policy Type:** TFFR Ends

**Policy Title:** Trust Fund Evaluation/Monitoring

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Ensure actuarial consulting and accounting services are provided to the retirement program. The TFFR Board of Trustees will select the independent actuary for consulting and actuarial purposes and direct a contract be executed by the Deputy Executive Director.

Accordingly, the administrative means will be to:

1. Have an annual actuarial valuation (July 1 to June 30) reviewed or performed on the retirement program.
2. Have an actuarial review of TFFR's actuarial valuation performed at least every ten years by an independent actuary.
3. Have an actuarial experience study performed on TFFR every five years.
4. Have an asset liability modeling study performed on TFFR every five years.
5. Prepare financial statements in accordance with generally accepted accounting principles for defined benefit public pension plans.
6. Have an audit conducted annually in accordance with generally accepted auditing standards (as established by the AICPA) by an independent auditor.
7. Receive an unqualified opinion by the independent auditor regarding the audited financial statements.
8. Perform internal audits on the retirement program which provide the board with reasonable assurance that TFFR is being administered in compliance with federal and state laws, administrative rules, board policy, and established procedures.

**Monitoring** (Method, Responsibility, Frequency)

- Internal Report
  - Disclosure of compliance to the board through periodic presentations by staff at Board meetings.
- External Report
  - Disclosure of compliance to the Board through annual audit and actuarial reports.

**TFFR Board Adopted:** May 25, 1995.

**Amended:** July 27, 2000.



**Plan Characteristics**

The Teachers' Fund for Retirement (TFFR) was established in 1913 to provide retirement income to public educators. TFFR is a qualified defined benefit public pension plan covered under Section 401(a) of the Internal Revenue Code (IRC). The NDCC Chapter 15-39.1 contains the actual language governing the Fund and is supplemented by Title 82 of the North Dakota Administrative Code (NDAC).

The responsibility for administration of the TFFR benefits program is assigned to a seven-member Board of Trustees (Board). The Board consists of the State Treasurer, the Superintendent of Public Instruction, and five members appointed by the Governor. The appointed members serve five-year terms which end on June 30 of alternate years. The appointed Board members must include two classroom teachers or guidance counselors, a school administrator, and two retired members.

The TFFR benefits program is administered through the Retirement and Investment Office (RIO) according to this Statement of Retirement Policy.

TFFR's funds are invested under the direction of the State Investment Board (SIB) following the "Prudent Investor Rule." The investments must be invested exclusively for the benefit of the TFFR members. Four of the TFFR Board members serve as voting members on the 11-member SIB.

**TFFR Board Adopted:** May 25, 1995.

**Amended:** July 1, 1997.

**Teachers' Fund for Retirement Responsibilities**

1. Establish policies for the administration of the TFFR programs.
2. Submit legislation, monitor the statutory responsibilities of the TFFR programs as outlined in the NDCC, and promulgate Administrative Rules.
3. Establish and monitor actuarial assumptions used to value the retirement plan and to conduct periodic valuations.
4. Establish and monitor retirement benefit and service program goals.
5. Establish and monitor policy for investment goals, objectives, and asset allocation for the Fund.
6. Communicate and monitor program expectations with the SIB.

**TFFR Board Adopted:** May 25, 1995.

**SIB Responsibilities**

To provide the staff and resources to carry out the ***Ends*** of the retirement program through RIO.

**TFFR Board Adopted:** May 25, 1995.